United Nations DP 2011/14

Executive Board of the
United Nations Development
Programme and of the
United Nations Population Fund

Distr.: General
13 December 2010

Original: English

First regular session 2011
31 January to 3 February 2011, New York
Item 6 of the provisional agenda
Recommendations of the Board of Auditors

UNDP: Report on the implementation of the recommendations of the Board of Auditors, 2008-2009*

Report of the Administrator

Summary

In July 2010, the United Nations Board of Auditors issued an unqualified or "clean" audit opinion on the financial statements of UNDP for the biennium ended 31 December 2009. While this is the second consecutive biennium that UNDP has been awarded such a positive audit opinion, UNDP management shares the views of its Audit Advisory Committee that positive gains derived from key management initiatives begun in recent years could be easily reversed if these gains are not protected or if underlying systemic issues are not fully addressed over the longer term. UNDP will continue to closely monitor and take appropriate actions to sustain the gains.

The present report provides an implementation status update on the 89 audit recommendations made by the Board of Auditors for the biennium ended 31 December 2009. To date UNDP has implemented all recommendations targeted for completion by third quarter 2010. Pursuant to Executive Board decision DP/2010/9, the status of the audit implementation is available in tabular form on the Executive Board Secretariat website. The present report also reviews progress made at UNDP in addressing the top 11 audit priorities for 2008-2009, and it outlines management plans to address the revised set of top 10 audit-related management priorities for the 2010-2011 biennium. The top 10 list reflects progress and positive gains noted by the Board of Auditors between the issuance of the original top 15 list (for the 2006-2007 biennium) and the issuance of the revised top 11 list. The report takes into consideration guidance provided by the Advisory Committee on Administrative and Budgetary Questions in its review of the UNDP financial statements, the UNDP Audit Advisory Committee, and the Report of the Board of Auditors (A/65/5/Add.1). The audit report of the Board of Auditors is also posted on the website of the Executive Board Secretariat.

*The compilation of data required to provide the Executive Board with the most current information has delayed submission of the present report.

10-68846 (E) 110111

Elements of a decision

The Executive Board may wish to: (a) note the unqualified audit opinions issued by the United Nations Board of Auditors; (b) note progress made by UNDP in addressing the audit-related priorities in 2008-2009; and (c) support UNDP's ongoing management efforts in addressing the revised top 10 audit-related management priorities for the 2010-2011 biennium.

I. Introduction

1. At the conclusion of its biennium audit of UNDP in July 2010, the United Nations Board of Auditors issued an unqualified or "clean" audit opinion on the financial statements of UNDP for the biennium ended 31 December 2009. This is the second consecutive biennium for which UNDP has been awarded such a positive audit opinion. Nevertheless, UNDP management shares the views of its Audit Advisory Committee that positive gains derived from key management initiatives begun in recent years could be easily reversed if these gains are not protected or if underlying systemic issues are not fully addressed over the longer term.

2. UNDP has reaffirmed its commitment, inter alia, by adopting an accountability-based and risk-informed approach to addressing audit issues, an approach consistent with the principles of accountability outlined in the UNDP accountability framework and oversight policy (DP/2008/16/Rev.1). The Management Group meeting chaired by the Administrator has set the tone by strategically reviewing progress made in addressing underlying audit issues. This effort has been complemented by discussion at the Operations Group meeting chaired by the Associate Administrator, where operational and specific audit issues have been addressed.

3. Pursuant to Executive Board decision DP/2010/9, the status of the audit implementation is available in tabular form on the Executive Board Secretariat website. The present report reviews progress made since the last update (DP/2010/11) in addressing the top 11 audit priorities for UNDP in 2008-2009, and it outlines management plans to address the revised set of top 10 audit-related management priorities for the 2010-2011 biennium. The revised top 10 audit-related management priority list reflects progress made and positive gains noted by the Board of Auditors from both the original top 15 list (for the 2006-2007 biennium) and the top 11 list (for the 2008-2009 biennium).

II. Status of audit recommendations of the United Nations Board of Auditors for the biennium ended 31 December 2009

4. For the biennium ended 31 December 2009, the Board of Auditors issued 89 audit recommendations in its report A/65/5/Add.1. Of these, the Board of Auditors categorized 35 recommendations as main or high priority. The other 54 recommendations were assigned medium priority. UNDP management appreciates that the Board has recognized the key improvements that have been made and has encouraged UNDP to strive for higher standards of organizational excellence in anticipation of the implementation of the International Public

Sector Accounting Standards (IPSAS) in 2012. UNDP management agrees with all 89 recommendations of the Board of Auditors.

5. Consistent with practices adopted in previous bienniums, UNDP has, in consultation with the Board of Auditors, adopted a phased approach to the implementation of the audit recommendations. Target completion dates have been set for different recommendations based on a management assessment of the effort and complexity involved in fully addressing the audit recommendations. The phased approach also minimizes disruption of work at UNDP Headquarters and country offices during peak periods. Progress will be measured and monitored in consultation with the Board and based on the target completion dates.

6. As of 31 October 2010 (the cut-off date for this report), UNDP had implemented all 19 of the recommendations targeted for completion by the third quarter of 2010.

Table 1: Implementation status by target completion dates

Target completion date	Implemented	In progress	Ongoing	Overtaken by events	Grand Total
2010, 3rd quarter	19				19
2010, 4th quarter	7	16			23
2011, 1st quarter		1			1
2011, 2th quarter		5			5
2011, 4th quarter		17			17
2012, 1st quarter		6			6
Overtaken by events				1	1
To be determined		11	6		17
Grand Total	**26**	**56**	**6**	**1**	**89**
Percentage	92				

7. At the aggregated level, 92 per cent of the audit recommendations have either been fully implemented or are in the process of being fully implemented. The details of the implementation status, including action plans, are available in the document posted on the website of the Executive Board Secretariat together with this report. One recommendation (which relates to mid-term reviews for staff performance assessment) has been overtaken by events. That is, the new Results Competency Assessment approach does not require mid-term reviews. Recommendations categorized as "ongoing" are those for which the recommended action requires the exercise of continuous due diligence. Therefore, these recommendations are being monitored on an ongoing basis. Examples include continuous follow-up of trust funds with accounting deficits and continuous monitoring of country offices that have been delegated authorities by the Multi-Donor Trust Fund Office.

Table 2: Implementation status by priority

Recommendations by priority and status	Implemented (a)	In progress (b)	Ongoing (c)	Overtaken by events (d)	Total (a) to (d)
High	12	20	3		35
Medium	14	36	3	1	54
Low	0	0	0	0	0
Total	26	56	6	1	89
Percentage of total	29	63	7	1	100
Percentage of cumulative total	92				

III. Review of progress made in addressing top audit priorities in 2008-2009

8. It is important to remember that the top 11 audit-related management priorities for the 2008-2009 biennium reflected progress made on the original top 15 audit priority list identified by UNDP management during the 2006-2007 biennium. Based on discussions with the Board of Auditors and Office of Audit and Investigations (OAI), the top 11 audit priorities list has now been further revised downward with the establishment of a top 10 audit priority list for the 2010-2011 biennium. The details are described in section III below.

9. Consistent with practices started during the last two bienniums, UNDP management has leveraged the independent view of the Board of Auditors and OAI to assess UNDP's progress in addressing the top 11 audit priorities as well as other remaining challenges.

10. The conclusion is that there has been encouraging progress made on all the top 11 audit-related management priorities, though progress on various details within each area has been quite uneven. In four areas, good progress has been noted and the controls in place have been deemed effective. This means significant progress has been achieved and hence there is a lower level of audit risk. In another four areas, some improvements have been noted but more work remains. For three areas, it has been concluded that not all the remedial actions have been fully implemented and hence the effectiveness of these interventions has yet to be fully established. The results of the internal assessment were presented and endorsed by the Operations Group meeting chaired by the Associate Administrator and by the Management Group meeting chaired by the Administrator. See Annex 1 for a summary of the assessment of the top 11 audit-related priorities for the 2008-2009 biennium.

11. Key management initiatives implemented in the past year that contributed to the positive assessment included, but are not limited to, the following:

a) Noted improvement in the timeliness of submission of audit reports for nationally implemented projects (NIM) with the enhancement of the Comprehensive Audit Recommendation Database System (CARDS).

Seventy-seven per cent of the NIM audit reports were submitted on time in 2009 compared with 59 per cent in 2007.

b) The total value of long outstanding advances (more than 6 months) to Governments for NIM projects was reduced from $16 million at the end of 2007 to $13.4 million at the end of 2009.

c) Fifty-two out of 61 country offices that previously requested or were approved for deferment have progressed to the next stage in the implementation process under the harmonized approach to cash transfers (HACT). Fifty-eight country offices are now UNDP HACT compliant (as compared to 15 in 2009).

d) Corporate guidelines for NIM projects have been promulgated and have been contributing to improved clarity of the roles, responsibilities and accountabilities of UNDP and its development partners on the ground.

e) The UNDP Handbook on Planning, Monitoring and Evaluating for Development Results has been launched and more than 500 project managers have been trained.

f) The Enhanced Results-Based Management platform, launched in early 2010, has provided a more integrated approach to work-planning (including risk management), monitoring and reporting of results.

g) The fast-track procedures have been promulgated and implemented in 16 country offices in 2010, contributing to more effective local office responses to crisis situations.

h) Procurement procedures were streamlined by moving from a multi-level review to a single level procurement review committee for contracts.

i) The more advanced Level II externally accredited procurement certification programme has been launched to supplement the current Level I certification programme.

j) All bank accounts in UNDP offices are now reconciled in a timely manner, and there has been significant improvement as regards the total value of unrecorded deposits (from $18 million in 2007 to $0.6 million in 2009).

k) The internal control framework guidelines have been revised and are now aligned with international standards with clearer linkage to the UNDP accountability framework.

l) Asset registers for all country offices have been duly certified and validated by the Bureau of Management prior to the biennial closing of accounts.

m) The UNDP recruitment and selection framework has been promulgated and the Compliance Review Board (at Headquarters for professional posts) and the Compliance Review Panels (at Headquarters and country offices for General Service posts) have been established to protect the integrity and quality of the selection process.

n) The total value of accounting deficits for the Trust Funds not denominated in euros was reduced to $2.25 million in 2009, as compared to $33.6 million in 2008.

12. As mentioned above, in three areas more work will be required before it can be said that progress has been made in addressing the underlying capacities and management issues. These areas are (a) project/programme management; (b) procurement management; and (c) long outstanding audit recommendations.

a) Strengthening programme and project management. Over the past years important strides were made in strengthening results-based approaches to planning, monitoring and evaluation in the context of programme and project management. Clearly, however, more work is needed as regards national

ownership and engagement. In addition to the publication of the UNDP Handbook on Planning, Monitoring and Evaluating for Development Results in 2009, emphasis has been placed both on conducting training workshops to improve the evaluability of UNDP programmes and project results frameworks, and on bolstering the links between outcomes and national priorities. UNDP expects to see improvements over the medium term.

b) Enhancing procurement management at country offices. This requires both a fresh look at staff capacity-building over a longer term and effective policy reviews. The Operations Group has approved a Procurement Roadmap for 2010-2011. It is expected to strengthen UNDP's procurement function. UNDP country offices are at the forefront of procurement activities and their capacities need to be strengthened. It is recognized that there are specific risks and opportunities associated with country offices in special development situations which require Headquarters support for complex procurement activities. Inter-agency collaboration will also be promoted, and work is progressing on the harmonization of procurement policies and practices, including vendor management.

c) Long outstanding audit recommendations. In its 2009 Report to the Executive Board, OAI indicated that more than 99 per cent of all the audit recommendations issued by OAI in the past five years have been implemented within an 18-month period. UNDP is working towards closing out long-outstanding audit recommendations by 31 December 2010.

IV. Management plans for addressing the top 10 audit priorities in the 2010-2011 biennium

13. Based on the results of the joint assessment with the Board of Auditors and OAI, a revised list, the top 10 audit-related management priorities for the 2010-2011 biennium, has been established and endorsed both by the Operations Group meeting chaired by the Associate Administrator and by the Management Group meeting chaired by the Administrator.

14. Three key areas of the previous top 11 list — bank reconciliations, the local office staff recruitment process, and common services management — have been dropped, as the controls put in place have been deemed effective and the new procedures have been integrated into the existing ones. These areas will continue to be monitored closely, however, to ensure against regression and the reappearance of significant audit risks. A fourth area (Trust Fund management) has been modified to reflect improvements made and so that residual issues can be further addressed.

15. While several of the focus areas in the revised top 10 list remain similar to those of the previous top 11 list, the contexts of several functional areas have been fine-tuned or revised to reflect the identification of emerging risks. The revised top 10 audit-related priority list now includes three new focus areas (high risk programme portfolios, balance sheet data clean up in Atlas, and leave records management) to reflect the concerns raised by OAI, the Board and the Audit Advisory Committee. See Annex 2 for an overview of the top 10 audit-related management priorities for the 2010-2011 biennium.

16. The top 10 audit-related management priorities for the 2010-2011biennium are described below with discussion on how UNDP management intends to address the audit risks and underlying systemic issues. UNDP is mindful of the fiscal challenge associated with the lingering impact of the ongoing financial crisis and also of the need to achieve cost savings, efficiencies and effectiveness as it prepares itself for the transition to International Public Sector Accounting Standards (by 2012. This revised list of the top 10 audit-related management priorities reflects the commitment of UNDP management to focusing on key audit risks while building up internal capacities.

(a) NIM audit follow-up and HACT monitoring/support. Regional bureaux have been encouraged to work with their country offices and their respective national counterparts to explore long-term contractual arrangements with local or subregional auditing firms for the audit of NIM projects where appropriate. This will avoid long delays in current procurement cycles — delays occasioned by a need to select suitable auditing firms to conduct the NIM audits — and will ensure greater consistency in the NIM auditing process. UNDP will also explore different cash transfer options to balance fiduciary risks and national capacity-building objectives at the programme country level. In addition, as part of its audit workplan for 2011, OAI will review HACT implementation in selected countries so as to identify issues, challenges and areas where improvement is required in implementing HACT.

(b) Programme project design, monitoring and evaluation. Regional bureaux are currently working on implementing measures to improve support to country offices in preparing their United Nations Development Assistance Framework (UNDAF) and country programme documents (CPD). These efforts, together with continuing efforts to strengthen results-based management capacity, as well as accountability and quality assurance, will affect new and existing country programme documents and the integrated work plan. The combined effect of these measures will be a gradual improvement in the quality of UNDAF/CPD/integrated work plan results and indicators over the next two to three years. Because programmes and projects are nationally owned, and indicators of achievement are discussed and agreed with national partners, improvement in results-based management can only be achieved incrementally as new or revised programmes and projects are discussed with partners. UNDP is on target to present a first set of country programme documents with improved results frameworks to the annual session of the Executive Board in June 2001. This is in keeping with the target completion date of second quarter 2011.

(c) Procurement management at UNDP offices. With the UNDP Procurement Roadmap currently being implemented, UNDP is building upon earlier improvements in its procurement processes. For example, the newly launched, externally accredited Level II procurement certification programme will contribute to the professionalization of the procurement staff. Other initiatives include: fast-track procurement policies and procedures to enable UNDP offices to be more responsive to the special needs of country offices in crisis and special development situations; the introduction of a streamlined procurement review process to promote greater efficiency; and exploring how to integrate procurement planning with the current, integrated work-planning process in UNDP offices.

(d) Atlas user security and internal controls. The current UNDP Internal Control Framework has been revised. It is now aligned with international

standards. As part of the transition to IPSAS, UNDP will be strengthening the segregation of duties in Atlas and is currently implementing further measures to better monitor high-risk transactions in Atlas.

(e) Asset management. With the transition to IPSAS, specific attention will be given to the training of asset focal points in UNDP offices to assure accurate accounting in Atlas of all non-expendable assets. Further, UNDP has extended its semiannual asset-certification exercise (previously implemented for country offices) to all Headquarters units.

(f) IPSAS readiness. UNDP expects to be on track to adopt IPSAS in 2012, pursuant to Executive Board decision 2009/15. Major efforts are currently under way to accelerate efforts to ensure the readiness of staff, the organization, stakeholders, data, the Atlas system, and IPSAS-related policy. A key milestone was reached recently when the Operations Group chaired by the Associate Administrator endorsed the decision to establish a Global Shared Service Center to support IPSAS-related functions. UNDP will continue to seek the guidance of the Board of Auditors as well as of the Audit Advisory Committee while working closely with the United Nations and with the Atlas partner agencies in exploring opportunities for synergies and policy harmonization so as to minimize software changes to our system.

(g) Leave records and recruitment management. This is a new focus area which was emphasized by the Board of Auditors in its 2008-2009 biennium audit in view of the planned implementation of IPSAS. In response, UNDP has started developing within Atlas controls that address leave administration and the training of staff. This should ensure the accurate and timely updating of leave records. As part of its 2011 audit workplan — as part of auditing human resource management at UNDP country offices — OAI will audit leave-records management. In addition, UNDP will continue to emphasize the importance of effective compliance review bodies at UNDP offices in order to ensure that recruitment policies and procedures are appropriate.

(h) Balance sheet data clean up in Atlas. This is another new focus area developed in response to an audit recommendation of the Board. While the Board has noted the significant efforts that were made in 2008-2009 to clean up long outstanding account balances in Atlas, in the current biennium UNDP is stepping up its efforts to deal with such long outstanding account balances.

(i) Management of high-risk programme portfolios. This is a third new focus area which reflects the increased attention management has been paying to potentially high-risk programme portfolios. These include The Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), as well as euro-denominated trust funds. UNDP will be issuing specific guidelines to help county offices mitigate losses on euro-denominated trust funds.

(j) Long outstanding audit recommendations. Pursuant to Executive Board decision 2006/19, UNDP management has been taking active steps to fully address all audit recommendations that could be outstanding for 18 months or more as of December 2010. In discussion with OAI, management is differentiating between audit recommendations that are within the control of the UNDP offices and those that are dependent on the reciprocal actions of other parties.

V. Conclusion

17. UNDP must ensure that the positive gains stemming from key management initiatives of past years are not reversed in the medium to longer term. The revised top 10 audit-related management priorities for the 2010-2011 biennium set the tone at the corporate level and communicate the management response to existing and emerging risks. In addition, audit risks that may affect the ability of the organization to carry out its mandate and strategic plan are being brought to the attention of the Enterprise Risk Management Committee, which is chaired by the Associate Administrator. Thus corporate risks arising from audits are closely monitored and mitigated. Consistent with the current practice of UNDP, there will be ongoing and regular oversight monitoring so as to mitigate significant audit or corporate risks.

Annex 1. Summary assessment of the top 11 management priorities for the 2008-2009 biennium

NIM audit follow up and outstanding advances	Programme/project design Monitoring and evaluation	Procurement management at country offices
Atlas user security and internal control	External tables in bank reconciliation	Asset management
Trust Funds management	Integrity of staff recruitment process	Common services
IPSAS readiness		Long outstanding audit recommendations

Legend used		
Conditions effectively addressed No longer an audit concern	Improvements noted More work remains	Conditions worsened
Good improvements noted Controls are effective	Not all remedial actions have been fully implemented, or effectiveness of interventions yet to be fully established	

Annex 2. Top 10 audit-related management priorities for 2010-2011

NIM audit follow up and HACT monitoring/support
Programme/project design, monitoring and evaluation
Procurement management at UNDP offices
Atlas user security and internal control
Leave records and recruitment management
Asset management
Management of high-risk programme portfolios
Balance sheet data clean-up (Atlas and pre-Atlas balances)
IPSAS implementation readiness
Long outstanding audit recommendations
Denotes new focus areas
Denotes areas carried forward from earlier top 11 list